SaskPower International

# *Annual Report*

**December 31, 2001**

## Report of Management

Management is responsible for the integrity of the financial data reported by SaskPower International Inc. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgment, estimates and appropriately selected accounting principles, applied on a basis consistent with the preceding year.

Management maintains appropriate systems of internal control, including policies and procedures and an internal audit program which provides reasonable assurance that SaskPower International Inc.'s assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit and Finance Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists of outside directors and at regular meetings reviews audit, internal control, and financial reporting matters with management, internal auditors and external auditors. The Audit and Finance Committee has reviewed the financial statements and submitted its report to the Board of Directors.

On behalf of Management,

David Hughes
*President and Chief Executive Officer*
*February 8, 2002*

John Wright
*Chairman of the Board*

## Auditors' Report

To the Members of the Legislative Assembly
of Saskatchewan

We have audited the consolidated statement of financial position of SaskPower International Inc. as at December 31, 2001 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of SaskPower International Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of SaskPower International Inc. as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Regina, Saskatchewan
*February 8, 2002*

*Chartered Accountants*

**SASKPOWER INTERNATIONAL INC.**
**Consolidated Statement of Loss and Deficit**
***For the year ended December 31, 2001***

| | 2001 | 2000 |
|---|---|---|
| **REVENUE** | | |
| Flyash sales | **$ 2,175,828** | $ 1,977,760 |
| Consulting and contract services | **665,392** | 1,323,074 |
| Interest | **652,964** | 18,128 |
| Other | **102,958** | 1,046 |
| **TOTAL REVENUE** | **3,597,142** | 3,320,008 |
| **EXPENSES** | | |
| Administration | **328,411** | 543,748 |
| Business development | **16,216** | 11,005 |
| Cost of goods sold | **1,928,641** | 2,186,074 |
| Salaries and benefits | **944,813** | 691,432 |
| Saskatchewan Capital Tax | **676,645** | 34,566 |
| **TOTAL EXPENSES** | **3,894,726** | 3,466,825 |
| **NET LOSS** | **297,584** | 146,817 |
| **DEFICIT,** beginning of the year | **3,642,314** | 3,495,497 |
| **DEFICIT,** end of year | **$ 3,939,898** | $ 3,642,314 |

See accompanying notes

**SASKPOWER INTERNATIONAL INC.**
**Consolidated Statement of Financial Position**
***As at December 31, 2001***

| | 2001 | 2000 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | **$ 33,605,821** | $ 1,273,156 |
| Accounts receivable | **551,200** | 271,463 |
| Other | **19,267** | 25,225 |
| | **34,176,288** | 1,569,844 |
| **CONSTRUCTION IN PROGRESS** (Note 2) | **78,700,843** | 15,489,739 |
| **LONG-TERM INVESTMENT** (Note 3) | **14,154,970** | - |
| **TOTAL ASSETS** | **$127,032,101** | $ 17,059,583 |
| **LIABILITIES AND EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | **$ 10,276,330** | $ 1,695,332 |
| **NON-RECOURSE LONG-TERM DEBT** (Note 4) | **91,000,000** | - |
| **OTHER LIABILITIES** | **-** | 30,896 |
| **TOTAL LIABILITIES** | **101,276,330** | 1,726,228 |
| **EQUITY** | | |
| Share capital (Note 5) | **29,695,669** | 18,975,669 |
| Deficit | **(3,939,898)** | (3,642,314) |
| **TOTAL EQUITY** | **25,755,771** | 15,333,355 |
| **TOTAL LIABILITIES AND EQUITY** | **$127,032,101** | $ 17,059,583 |

See accompanying notes

_____, John Wright, Chairman of the Board

_____, V. Lynne Pearson, Director

**SASKPOWER INTERNATIONAL INC.**
**Consolidated Statement of Cash Flows**
***For the year ended December 31, 2001***

| | 2001 | 2000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss | **$ (297,584)** | $ (146,817) |
| Net change in non-cash working capital (Note 6) | **111,873** | (154,955) |
| **CASH USED IN OPERATING ACTIVITIES** | **(185,711)** | (301,772) |
| **INVESTING ACTIVITIES** | | |
| Additions to construction in progress | **(55,046,654)** | (14,616,614) |
| Purchase of long-term investment | **(14,154,970)** | - |
| **CASH USED IN INVESTING ACTIVITIES** | **(69,201,624)** | (14,616,614) |
| **FINANCING ACTIVITIES** | | |
| Issue of common shares (Note 5) | **10,720,000** | 15,498,077 |
| Issue of non-recourse long-term debt | **91,000,000** | - |
| **CASH PROVIDED BY FINANCING ACTIVITIES** | **101,720,000** | 15,498,077 |
| **INCREASE IN CASH** | **32,332,665** | 579,691 |
| **CASH**, beginning of year | **1,273,156** | 693,465 |
| **CASH**, end of year | **$ 33,605,821** | $ 1,273,156 |
| Cash interest paid | **$ 3,598,069** | $ 211,348 |
| Cash taxes paid | **67,183** | - |

See accompanying notes

SaskPower International Inc. (the "Corporation") was incorporated pursuant to *The Business Corporations Act (Saskatchewan)* effective September 15, 1994 and was registered in the Province of Alberta on September 10, 1999. The Corporation is a wholly owned subsidiary of Saskatchewan Power Corporation ("SaskPower").

The financial results of the Corporation are included in the consolidated financial statements of SaskPower. The Corporation contributes to the long-term success of SaskPower by diversifying its revenue and asset base and achieving a return on investment capital by investing in power projects, marketing SaskPower's expertise and selling flyash.

As a subsidiary of a Crown corporation, the Corporation is not subject to federal income tax, provincial income tax, or federal large corporations' tax.

## 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates.

The following policies are considered to be significant:

### a) Joint Ventures

The Corporation accounts for its joint venture interests using the proportionate consolidation method.

### b) Long-term Investments

The Corporation accounts for its investment over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's pro-rata share of post acquisition earnings of the investment.

### c) Foreign Currency Translation

Transactions denominated in a currency other than Canadian dollars are translated to Canadian dollars by applying exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate prevailing at the year-end date. Any resulting foreign currency translation gains and losses are included in the statement of loss and deficit in the current period.

### d) Construction In Progress

Construction in progress is recorded at cost and includes materials, direct labour and allocated overhead costs. Capital expenditures include capitalized interest incurred during construction. Depreciation is calculated on a straight-line basis over the estimated service life of the related asset, beginning once the assets are placed into commercial operations.

### e) Revenue Recognition

The Corporation uses the percentage of completion method for long-term consulting and contract services. Other consulting and contract services are recognized when services are rendered. Flyash sales revenue is recognized on delivery.

## 2. CONSTRUCTION IN PROGRESS

Construction in progress pertains to the construction of the Cory Cogeneration Station in which the Corporation has a 50% interest. The cogeneration plant is expected to commence commercial operations November 2002.

Interest and financing costs of $5,511,069 ($211,348 in 2000) have been capitalized.

## 3. LONG-TERM INVESTMENT

In 2001, the Corporation acquired an ownership interest in the Muskeg River Mine Cogeneration Project, currently under construction. The 170-megawatt natural gas-fired cogeneration facility is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The scheduled date of commercial operation is late 2002.

Ownership interests in the Muskeg River Mine Cogeneration Project are as follows:

| | |
|---|---|
| ATCO Power Canada Ltd. | 56% |
| SaskPower International Inc. | 30% |
| ATCO Resources Ltd. | 14% |

The Corporation has committed to an equity investment to a maximum of $21.2 million. The investment to date is $14.1 million.

## 4. NON-RECOURSE LONG-TERM DEBT

Debentures payable are based on the following terms and rates:

| Non-recourse | 2001 | 2000 |
|---|---|---|
| Notes at 7.586%, repayable in quarterly payments commencing on March 31, 2003 and ending December 31, 2024. | $48,500,000 | - |
| Notes at 7.601%, repayable in quarterly payments commencing on September 30, 2004 and ending June 30, 2026. | 42,500,000 | - |
| | $91,000,000 | - |

These debentures are issued in the name of Cory Cogeneration Funding Corporation. The Corporation bears no responsibility for the debt other than that which can be claimed through its interest in the Cory Cogeneration Project.

**Maturities**

The minimum annual debt repayments for each of the next five years are as follows:

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Debentures | $ - | $ 799,500 | $ 1,309,500 | $ 1,890,000 | $ 2,190,000 |

## 5. EQUITY

| | # | 2001 | 2000 |
|---|---|---|---|
| **Authorized** | | | |
| Unlimited Class A non-cumulative, voting common shares | | | |
| **Issued** | | | |
| Class A | | | |
| Issued and outstanding, beginning of the year | 18,975,669 | $ 18,975,669 | $ 100 |
| Issued during the year | 10,720,000 | 10,720,000 | 18,975,569 |
| Issued and outstanding, end of year | 29,695,669 | $ 29,695,669 | $ 18,975,669 |

During the year the Corporation issued 10,720,000 shares for cash consideration of $10,720,000.

All shares are held by the parent corporation, SaskPower.

## 6. NET CHANGE IN NON-CASH WORKING CAPITAL

| | 2001 | 2000 |
|---|---|---|
| Accounts receivable | $ (279,737) | $ 228,494 |
| Other current assets | 5,958 | (1,178) |
| Accounts payable and accrued liabilities | 385,652 | (94,992) |
| Deferred revenue | - | (287,279) |
| | $ 111,873 | $ (154,955) |

## 7. FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments reflect market estimates of the notional amount that the Corporation would pay if the Corporation were to refinance contracts at the end of the year. They are not a result of market transactions. Changes in assumptions, economic conditions and other factors could cause significant changes in the fair value estimates. The following summarizes the fair value of the Corporation's financial instruments at year-end.

| As at December 31 | 2001 | |
|---|---|---|
| | Carrying Value | Fair Value |
| Non-recourse long-term debt | 91,009,000 | 90,948,000 |

Fair values are determined as follows:

1. Long-term debt

   Year-end market prices for similar instruments.

2. Other financial instruments

   The carrying values of all other financial instruments including cash accounts receivable, accounts payable, accrued liabilities, and other liabilities approximate fair value due to the short period to maturity.

## 8. JOINT VENTURES

(a) In 2000, the Corporation entered into agreements for a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. to construct a 228-megawatt natural gas-fired cogeneration plant (the "Cory Cogeneration Station") near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation ("CCFC"). CCFC was incorporated pursuant to the *Saskatchewan Business Corporations Act (Saskatchewan)* effective November 19, 1999 and was registered with the Province of Alberta on December 18, 2000.

CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the Cory Cogeneration Project. Following completion of the project, CCFC will act as agents for the Owners, receiving revenues, disbursing costs, including debt service and distributing proceeds to the Owners.

(c) The Corporation's interest in joint ventures for 2001 is summarized below:

| | 2001 | 2000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | **$ 21,644,938** | $ 976,851 |
| Current liabilities | **(9,037,575)** | (842,229) |
| Construction in progress | **78,700,843** | 15,489,739 |
| | **-** | (30,896) |
| Non recourse long-term debt | **(91,000,000)** | - |
| Investment in joint ventures | **$ 308,206** | $ 15,593,465 |
| **Statement of cash flows** | | |
| Operating activities | **$ (206,016)** | - |
| Investing activities | **(55,046,654)** | (14,521,276) |
| Financing activities | **75,714,741** | 15,498,127 |
| Increase in cash position | **$ 20,462,071** | $ 976,851 |

Current assets include cash of $21,438,922 ($976,851 in 2000), which is only available for use within the joint ventures.

## 9. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with joint ventures and various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

| | 2001 | 2000 |
|---|---|---|
| Accounts receivable and unbilled revenue | $ 47,160 | $ 31,805 |
| Accounts payable and accrued liabilities | 470,041 | 442,846 |
| Revenue - flyash sales | 51,155 | 379,570 |
| Revenue - consulting and contract services | 389,629 | 444,134 |
| Revenue - other | 102,258 | 564 |
| Expenses - cost of goods sold | 1,069,393 | 788,863 |
| Expenses - administration | 162,495 | 114,476 |

SaskPower provides certain management services to the Corporation for no consideration.

## 10. PENSION PLANS

All employees of the Corporation are members of either a defined contribution or a defined benefit plan. In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans as required by the Public Employees Pension Plan Act for the defined contribution plan and the Power Corporation Superannuation Act for the defined benefit plan, unless otherwise specified by an employee agreement. Under the defined benefit plan, the members' pension is guaranteed by SaskPower regardless of the financial status of the plan. Included in these financial statements is $63,891 ($45,241 in 2000) relating to pension expense.

## 11. COMMITMENTS

As at December 31, 2001, the Corporation had agreed to expenditures of $38,690,485 ($97,670,732 in 2000) for construction materials, equipment and contracts and services not completed at that time in respect of the Cory Cogeneration Station. The facility's scheduled commercial operations date is November 2002.

The Corporation has committed to an additional equity investment of $7,056,797 in the Muskeg River Mine Cogeneration Project, to a maximum of $21,200,000.

## 12. COMPARATIVE FIGURES

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these financial statements in their audit report dated February 7, 2001.